



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 8, 2003

H.R. 2 **Jobs and Growth Tax Act of 2003**

As ordered reported by the House Committee on Ways and Means on May 6, 2003

SUMMARY

The Jobs and Growth Tax Act of 2003 would amend numerous provisions of existing tax law. The bill would accelerate to 2003 the income tax rate reductions scheduled for 2004 and 2006. The bill would also accelerate previously enacted tax changes to increase the child tax credit and expand the 10- and 15-percent tax brackets. Those changes would revert to tax law currently scheduled for 2006. In addition, H.R. 2 would increase the exemption amount for the individual alternative minimum tax (AMT), decrease the tax rates for income from dividends and capital gains, modify tax law relating to bonus depreciation and expensing, and allow certain 2003 corporate estimated tax payments to be shifted into 2004.

The Joint Committee on Taxation (JCT) estimates that enacting the bill would decrease governmental receipts by about \$57 billion in 2003, by about \$461 billion over the 2003-2008 period, and by about \$536 billion over the 2003-2013 period. JCT estimates enacting the bill also would increase outlays by about \$3.6 billion in 2003, by about \$13.6 billion over the 2003-2008 period, and by about \$13.8 billion over the 2003-2013 period.

JCT has determined that H.R. 2 contains no private-sector or intergovernmental mandates as defined by the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the H.R. 2 is shown in the following table. Most of the budgetary effects of the legislation are reductions in revenues. However, the bill also would increase outlays by making various changes to the income tax brackets and rates of taxation.

By reducing the amount of taxes owed, those changes would result in a larger portion of tax credits being refundable—and thus recorded as outlays rather than reductions in revenues. The act also would increase the child credit, which is refundable under the tax code and counted as outlays in the budget to the extent that it results in “refunds” of income taxes not actually paid. The spending effects of this legislation would fall within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
CHANGES IN REVENUES AND OUTLAYS FROM REFUNDABLE TAX PROVISIONS						
Title I: Acceleration of Previously Enacted Tax Reductions ^a	-31,267	-91,474	-72,965	-38,308	0	0
Title II: Growth Incentives for Businesses	-11,780	-46,592	-75,450	-35,619	22,809	26,646
Title III: Reductions in Taxes on Dividends and Capital Gains ^a	-4,377	-18,701	-20,842	-23,429	-26,041	-27,643
Title IV: Modification to Corporate Estimated Tax Payments for 2003	<u>-12,826</u>	<u>12,826</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Effect on Revenues and Outlays	-60,250	-143,941	-169,257	-97,356	-3,232	-997
Outlays for Refundable Tax Credits ^a	<u>3,618</u>	<u>1,042</u>	<u>4,653</u>	<u>4,244</u>	<u>45</u>	<u>44</u>
Total Changes in Revenues ^a	-56,632	-142,899	-164,604	-93,112	-3,187	-953
CHANGES IN DIRECT SPENDING						
Outlays for Refundable Tax Credits ^a	3,618	1,042	4,653	4,244	45	44
TOTAL CHANGES						
Net Increase in Budget Deficits	-60,250	-143,941	-169,257	-97,356	-3,232	-997

SOURCE: The Joint Committee on Taxation.

NOTE: Components may not sum to totals because of rounding.

a. The Joint Committee on Taxation has determined that certain revenue provisions in Titles I and III have direct spending effects from the refundable tax credits. Separate estimates of the effect of each proposal on revenues and outlays are not available.

BASIS OF ESTIMATE

Revenues

All the estimates for the revenue provisions were provided by JCT. H.R. 2 contains numerous provisions altering existing individual and corporate tax law. JCT estimates that, together, the provisions contained in the bill would decrease federal revenues by about \$57 billion in 2003, by about \$461 billion over the 2003-2008 period, and by about \$536 billion over the 2003-2013 period.

Title I: Acceleration of Certain Previously Enacted Tax Reductions. Provisions contained in this title would:

- Accelerate to 2003 the cuts in individual income tax rates currently scheduled to take place in 2004 and 2006;
- Expand the child credit to \$1,000 for 2003 through 2005 and include an advance payment mechanism (rebate) for 2003;
- Accelerate the expansion of the 15 percent tax bracket and increase in the standard deduction for married taxpayers filing a joint return to 2003, and revert to present law in 2006;
- Accelerate the expansion of the 10 percent tax bracket for all taxpayers to 2003, and revert to present law in 2006; and
- Increase the exemption amount for the individual AMT for 2003 through 2005.

JCT estimates that these provisions would decrease governmental receipts and increase refundable outlays by about \$31 billion in 2003 and by about \$234 billion over the 2003-2006 period.

The provision for a child credit rebate in 2003 is proposed in such a way that some of what is classified as reduced revenue in this estimate could have instead been classified as increased outlays. The bill would provide for 2003 taxpayers to receive a higher child credit of \$1,000 per qualifying child instead of the \$600 allowed under current law. Qualifying taxpayers who filed tax returns for tax year 2002 would receive an advance payment (rebate) of the increased credit during 2003. For some taxpayers, the amounts they would receive as advance payments based on their 2002 tax returns would exceed allowable amounts based on their 2003 circumstances because they had insufficient tax liabilities in 2003. Such

taxpayers would not be required by law to repay the excess. That excess might properly be considered an outlay because the amount could not be construed as a refund of 2003 taxes (the taxpayer did not owe this amount as 2003 liability) and the provision does not stipulate that any advance payments exceeding the 2003 allowed credit for such a taxpayer are to be deemed as refunds of prior years' taxes. In this cost estimate, however, those excesses are considered reductions in revenues based on the final budget treatment for an analogous rebate provision enacted in 2001.

Title II: Growth Incentives for Businesses. The provisions contained in this title would:

- Increase bonus depreciation to 50 percent and extend it through 2005;
- Extend the five-year period for carryback refunds to losses incurred in 2003 through 2005, and waive the limitation on losses for the alternative minimum tax; and
- Increase the amounts and types of investment that qualify for immediate deductibility ("expensing") under section 179 of the Internal Revenue Code.

JCT estimates that these provisions would decrease governmental receipts by about \$12 billion in 2003, by about \$120 billion over the 2003-2008 period, and by about \$39 billion over the 2003-2013 period.

Title III: Reductions in Taxes on Dividends and Capital Gains. Title III would apply tax rates of 15 percent and 5 percent for income from dividends and long-term capital gains through 2012. JCT estimates that these rate changes would decrease governmental receipts and increase refundable outlays by \$4 billion in 2003, by about \$121 billion over the 2003-2008 period, and by about \$277 billion over the 2003-2013 period.

Title IV: Modification to Corporate Estimated Tax Payments for 2003. Title IV would allow certain 2003 corporate estimated tax payments to be paid in 2004, which JCT estimates would decrease federal revenues by about \$13 billion in 2003, but then increase revenues by the same amount in 2004.

Direct Spending

JCT provided the outlay effects resulting from the refundable tax credits contained in titles I and III of the bill. JCT estimates that enacting those provisions would increase outlays by about \$3.6 billion in 2003, by about \$13.6 billion over the 2003-2008 period, and by about \$13.8 billion over the 2003-2013 period.

SUMMARY OF THE EFFECT ON REVENUES AND DIRECT SPENDING

The overall effects of the bill on revenues and direct spending over the 2003-2013 period are shown in the following table.

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Changes in receipts	-56,632	-142,899	-164,604	-93,112	-3,187	-953	-2,245	-10,134	-18,757	-26,622	-16,572
Changes in outlays	3,618	1,042	4,653	4,244	45	44	45	52	65	9	8

SOURCE: The Joint Committee on Taxation.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has determined that H.R. 2 contains no private-sector or intergovernmental mandates as defined by UMRA and would impose no costs on state, local, or tribal governments.

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